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## NMFS Cost Recovery IFQ Halibut/Sablefish



Sustainable  
Fisheries

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# IFQ Halibut and Sablefish Cost Recovery for Fishing Year 2014

## **Cost Recovery**

Section 304(d)(2)(A) of the Magnuson–Stevens Fishery Conservation and Management Act (MSA), enacted in late 1996, obligates NMFS to recover the actual costs of management, data collection, and enforcement of the Individual Fisheries Quota (IFQ) Program for the Fixed-Gear Commercial Fisheries for Pacific Halibut and Sablefish in Waters in and off Alaska (IFQ Program). The law provides that the fee be paid by IFQ fishermen and the fee be based on the ex-vessel value of fish landed under the IFQ Program. The MSA limits the fee to 3 percent of the annual ex-vessel value in dollars, goods, and services.

Receipts from cost recovery are deposited in two accounts. Twenty-five percent (25 percent) of the collections are deposited in the U.S. Treasury. They are available to Congress for annual appropriations to support the North Pacific (IFQ) Loan Program. The other 75 percent is deposited in the Limited Access System Administrative Fund (LASAF). Funds in this account are available only to the Secretary of Commerce and must be spent on IFQ Program management, data collection, and enforcement. This report reviews the cost recovery requirements and responsibilities of fishery participants and NMFS; how the fee is determined; what IFQ Program costs were paid for by the fee; and compares LASAF expenditures in 2014 to 2013.

## **Requirements and Responsibilities**

Cost recovery places the responsibility for payment of fees on two categories of participants: 1) IFQ registered buyers who are acting as shoreside processors; and 2) IFQ permit holders with landings of halibut or sablefish authorized by their permit.

### ***For IFQ Registered Buyers***

Registered buyers acting as shoreside processors must report the monetary value and amount of purchased pounds of halibut and sablefish by species, month, and port, information essential for calculating annual standard ex-vessel prices of IFQ fish. Reports are due at NMFS, Restricted Access Management (RAM) Program by October 15 each year and can be submitted on-line or on paper forms.

### ***For IFQ Permit holders***

IFQ permit holders are responsible for fees owed for all landings on their permit(s), regardless of whether their IFQ pounds were from their own quota share (QS) or leased from another QS holder and regardless of whether a permit holder or a hired skipper made the landings. IFQ permit holders are also responsible for fees owed for all landings of their halibut IFQ leased as guided angler fish (GAF) to a person holding a Charter Halibut Permit issued by NMFS.

Permit holders must pay their fee liability by no later than January 31 of the year after the calendar year of the landings. There are two payment options:

***Payment Option 1:*** Permit holders may pay the amount billed, which is NMFS' calculation of the annual fee owed, based on standard ex-vessel prices and values; or

***Payment Option 2:*** Permit holders may pay an amount based in whole or in part on actual ex-vessel value from the sale of their IFQ halibut or sablefish. If they choose this option, they must be prepared to demonstrate, with written documentation, how much money or other value they received for those IFQ landings.

**Penalties:** Failure to pay on time results in NMFS action against the permit holder's QS holdings and additional monetary charges, fines, and/or permit sanctions. If a permit holder fails to pay by the January 31 due date, his/her QS/IFQ will become nontransferable until the fee liability is satisfied, and he or she may not receive QS or IFQ by transfer. The NMFS, Alaska Region, Operations and Management Division (OMD) will issue an Initial Administrative Determination (IAD) to which the permit holder must respond within 30 days. If an account is unpaid for 30 days after the due date, administrative fees, interest, and penalties start to accrue.

If the account is not paid within the 30 days provided by the IAD, in addition to fees, interest, and penalties, the permit holder's IFQ permit account will be sanctioned and the permit holder will be unable to fish until the fee liability is satisfied. Additional fines may also apply.

### **NMFS Responsibilities**

At the end of each IFQ fishing season, NMFS is responsible for these actions:

- ✓ compiles a list of all IFQ landings by species, month, and port or port group;
- ✓ uses shoreside IFQ Registered Buyer data to calculate a set of standard ex-vessel prices for IFQ fish landed;
- ✓ applies the appropriate standard ex-vessel price to each landing, creating a standard ex-vessel value for each landing;
- ✓ sums the total standard ex-vessel values of all landings to derive the total ex-vessel value of the year's IFQ fishery;
- ✓ compiles all direct program costs attributable to the IFQ fishery;
- ✓ uses direct program costs and total ex-vessel value to calculate the annual fee percentage;
- ✓ applies the fee percentage to the standard ex-vessel value of a landing to determine the fee owed for each landing;
- ✓ sums the fees owed for all landings on all IFQ permits held by each person. This final figure is the *annual fee* liability each permit holder owes and is based on standard ex-vessel prices and values; and
- ✓ mails IFQ permit holders a summary that itemizes their landings and shows their calculated fee liability. NMFS bases the fee liability on the sum of all payments of monetary worth (in dollars, goods, and services) to fishermen for landings of IFQ fish.

### **The 2014 IFQ Cost Recovery Fee Percentage**

NMFS announced that the 2014 IFQ fee percentage was set at 2.6 (73045 FR, December 9, 2014). Under cost recovery regulations, IFQ permit holders who used their permits to record landings of IFQ halibut or IFQ sablefish during the 2014 IFQ fishery or who leased halibut IFQ that was landed as GAF during the 2014 charter halibut fishery were obligated to pay 2.6 percent of the total ex-vessel value from the sale of their IFQ halibut, IFQ sablefish, and GAF. The fee percentage derives from two sources:

- The total ex-vessel value of the IFQ halibut and IFQ sablefish fisheries; and
- The direct program costs of management, data collection and enforcement of the IFQ Program as measured by actual expenditures during Federal fiscal year 2014 (FY14).

These sources are discussed below.

#### ➤ **Ex-Vessel Value of the IFQ Fisheries**

Ex-vessel value is determined from ex-vessel prices which differ between IFQ species, from port to port, and with the time of year. To account for price variability in the annual fee liability, NMFS calculates an average ex-vessel price for each species, port of landing, and month and uses these prices to calculate the total ex-vessel value of the IFQ fisheries.

NMFS used the 2014 registered buyer data to calculate the average ex-vessel price for each species, port, and month. Then the amount of IFQ species products delivered to each port or port group, by month, was multiplied by this “standard” ex-vessel price to calculate the “standard” ex-vessel values. The total ex-vessel value of the IFQ fisheries is the sum of standard ex-vessel values for each IFQ species, port, and month. The total ex-vessel values of the two fisheries based on standard ex-vessel values in 2014 are as follows:

<b>Halibut</b>	100,244,479.00
<b>Sablefish</b>	<u>76,738,611.00</u>
<b>Total</b>	\$176,983,090.00

Note: NMFS combined ports with little price data into port groups and included these in the ex-vessel value calculations of the two fisheries.

#### ➤ **Costs of Management, Data Collection, and Enforcement**

The other part of determining the fee is calculating the costs to manage the IFQ Program, collect data from the IFQ fisheries, and conduct enforcement. Note these costs are incremental: the costs would not have been incurred except for the IFQ Program. Cost recovery fees do not increase agency budgets or expenditures. The fee offsets funds that would otherwise have been appropriated, except the International Pacific Halibut Commission (IPHC) and Alaska Department of Fish and Game (ADF&G) expenditures, for which there is no direct appropriation. No budgetary advantage is gained by inflating costs.

To arrive at these annual costs, in early September NMFS, IPHC, and ADF&G each calculate their own IFQ-associated costs. NMFS separates costs by operating units including NMFS RAM, NMFS Information Services Division (ISD), NMFS Office of Law Enforcement (OLE), NMFS Sustainable Fisheries (SF), NMFS Financial Service Division (FSD), NMFS Operations and Management Division (OMD), and NMFS Regional Administrator Office (RAO). Table 1 details the FY14 costs associated with management, data collection, and enforcement of the IFQ Program. Figure 1 compares the total costs of each NMFS operating unit, IPHC, and ADF&G during FY14 and FY13.

#### **Calculation of the 2014 Fee Percentage**

The annual fee percentage is calculated using the following formula:

$$[100 \times (DPC/V)]$$

This is not as complicated as it may seem. It simply means that the direct program cost (DPC) is divided by the total ex-vessel value (V) of the IFQ fisheries, and then multiplied by 100. The result, rounded to

the nearest 0.1 percent, is the *fee percentage*. The detailed steps to calculate the 2014 fee percentage are as follows:

Detail of formula for calculating the 2014 fee percentage		
Factor	Value	Activity
Cost (DPC)	4,530,572	divide by V
Fisheries Value (V)	176,983,090	multiply by 100
=	2.6	round to nearest 0.1 percent
<b>Rate for 2014 IFQ Season = 2.6 percent</b>		

The 2014 fee percentage of 2.6% was premised on direct program costs of \$4,530,572 and a total standard ex-vessel fishery value calculated at \$176,983,090.

## Conclusion

Program expenditures for FY14 (\$4,530,572) decreased 7.9% compared to FY13 (\$4,920,803). From FY13 to FY14, the cost remained steady for personnel/overhead, contracts/training, and rent/utilities. Costs of travel declined by about half, though increased cost of OLE travel were offset by a reduction in IPHC travel costs. Printing costs, supplies, and transportation costs declined. The cost of equipment increased slightly. The cost component “Other” declined over 90% due to the completion of a one-time grant to apply NMFS electronic reporting and data access tools to the IFQ Program. The costs associated with work under this FY13 grant were apportioned between three NMFS, Alaska Region offices that completed the work (RAM, SF and ISD).

Within NMFS, the highest cost of operations is incurred for enforcement by OLE. In FY14, the cost declined for operation of RAM, OLE, SF and OMD while costs increased for ISD, FSD, and RAO. The costs for IPHC increased and the costs for ADF&G decreased from FY13 to FY14. Between years, costs fluctuate due to changes within the programs, such as new contracts, required trainings, personnel changes, and purchases of equipment. Although some costs are controlled by “economies of scale,” other costs will decrease with the number of IFQ Program participants.

The decrease in the direct program costs from FY13 to FY14, combined with a 0.4% reduction in total ex-vessel value for IFQ fisheries from 2013 to 2014, resulted in a decrease in the fee percentage from 2.8% in 2013, to 2.6% in 2014. This is a 7.1% decrease from the 2013 fee percentage of 2.8%. This decrease in the fee percentage between FY13 and FY14 follows a 33% increase in the fee from 2.1% in FY12.

The decline in total ex-vessel value of the IFQ fisheries between 2013 and 2014 was accompanied by a 32% decrease the volume of halibut harvests (5,065,812 pounds) and a 19% decrease in the volume of sablefish harvests (4,142,459 pounds). During the same time period, the average price per pound of halibut increased from \$5.06 per pound to \$6.36, but this increase did not fully offset the decrease in harvests and the total ex-vessel value of halibut declined by 5% (\$5,103,007). The average price per pound of sablefish also increased from \$2.84 per pound in 2013 to \$3.59 per pound in 2014. The increased price of sablefish resulted in a 6% increase in the total ex-vessel value of sablefish (\$4,339,841).



Calculation of the annual fee relies on good reporting of price per pound of IFQ landings by IFQ registered buyers. This season, IFQ registered buyers and members of the IFQ fleet complied well with fee program requirements. Consistent with earlier years, IFQ fleet payment compliance in 2014 remained strong.

**Table 2 Fiscal year 2014 IFQ Program costs by cost recovery component and agency.**

Cost Recovery Component	NMFS RAM	NMFS ISD	NMFS Law Enforcement	NMFS Sustainable Fisheries	NMFS Financial Services	NMFS OMD	NMFS RAO	IPHC	ADF&G	Total
Personnel Costs <sup>a</sup>	279,206	240,939	1,771,973	279,972	175,664	69,279	86,923	485,048	53,703	3,442,707
Travel <sup>b</sup>	–	2,321	90,593	5,861	–	–	1,506	(51,064)	1,888	51,105
Transportation <sup>c</sup>	28	–	5,233	–	–	–	–	–	–	5,261
Printing	–	–	29	–	–	1,134	–	–	–	1,163
Contracts/Training	25,000	129,854	184,196	81,518	–	–	–	88,546	7,116	516,230
Supplies	4,953	899	13,770	–	–	131	–	3,462	–	23,215
Equipment	--	–	23,195	–	–	–	–	--	–	23,195
Rent/Util/Overhead <sup>d</sup>	44,053	29,348	323,422	36,389	–	9,030	10,517	–	–	452,759
Other <sup>e</sup>	--	–	–	–	–	–	–	6,103	8,834	14,957
<b>Total</b>	<b>353,240</b>	<b>403,361</b>	<b>2,412,411</b>	<b>403,740</b>	<b>175,664</b>	<b>79,574</b>	<b>98,946</b>	<b>532,095</b>	<b>71,541</b>	<b>4,530,572</b>

<sup>a</sup> Personnel includes costs of locality pay and all benefits.

<sup>b</sup> Travel includes per diem payments. IPHC uses a scalar to determine costs so IPHC travel expenses reflect costs derived by a separate cost formula.

<sup>c</sup> Transportation includes shipment of items.

<sup>d</sup> Rent/Utilities/Overhead includes costs of space and utilities and shared common space and services.

<sup>e</sup> IPHC “other” expenses include costs related to vessel clearances and reimbursed communications costs. ADF&G’s indirect costs are also included in “Other.”

**Figure 1 IFQ Program costs by agency during fiscal year 2013 and 2014.**

